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HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR RJARPE
NSC FOR RKING
COMMERCE FOR 4431/MAC/WH/JLAO

E.O. 12958: N/A

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SUBJECT: PARALLEL MARKET DISRUPTED BY FREEZING OF U.S.
"UMBRELLA" ACCOUNT

REF: A. CARACAS 137

[1](#)B. 2007 CARACAS 2362

[1](#)1. (U) The parallel foreign exchange market in Venezuela was severely disrupted on March 26 after an "umbrella" U.S. bank account was apparently frozen. According to local brokers, the account in question was a Bank of America account held by a Florida-based company called Rosemont Corporation. This account had multiple sub-accounts used by up to 54 local brokers, or the majority of those participating in the parallel market. The freezing of the account stopped most transactions on the parallel market as even brokers without Rosemont sub-accounts were hesitant to do business with other brokers out of concern their counterparties' funds might be directly or indirectly tied up with the Rosemont account.

[1](#)2. (U) According to several brokers, the parallel market began to function again March 27, although with relatively high spreads between the buy and sell prices. As all sub-accounts of the Rosemont account remained frozen for outgoing transfers, brokers whose only U.S. bank accounts were through Rosemont could not complete transactions. One broker Econoff consulted said the advantage of her company's sub-account through Rosemont was the speed with which Bank of America processed transactions relative to the several other U.S. banks at which her company had accounts. Financial executive Miguel Octavio, in a post on his Devil's Excrement blog, suggested the ease of opening accounts through Rosemont appealed to many brokers. There are rumors that the major brokers PDVSA uses when it sells dollars into the parallel market (ref A) operate through sub-accounts of Rosemont's Bank of America account.

[1](#)3. (SBU) Though it is unclear whether U.S. authorities ordered Bank of America to freeze Rosemont's account, the action is clearly linked to a money laundering indictment brought against Rosemont executive director Rama Vyasulu by a grand jury in Massachusetts. Law enforcement officials at Post confirmed the charges against Vyasulu, noting they were related to a drug trafficking investigation and not related to the functioning of Venezuela's parallel market per se. The Boston-based DEA agent handling the case told Econoff he was unable to comment further on the case or legal proceedings.

[1](#)4. (SBU) Comment: This incident is another example of the costs of the government of the Bolivarian Republic of Venezuela's (GBRV) economic model. As the Central Bank sells fewer dollars at the official exchange rate, more and more

transactions are shifting to the parallel market. While the parallel market functions as a market (unlike the GBRV's allocation of hard currency at the official rate), even when it is functioning smoothly transaction costs are much higher than in a normal foreign exchange market. Though it could never eliminate an alternative foreign exchange market and indeed is the largest supplier of dollars into the current parallel market, the GBRV has taken a number of steps that reduce the market's transparency and efficiency (ref B). The structure of the Rosemont account, and the impact its freezing is having on the parallel market, are not surprising in this context, nor is the notion that the parallel market could be exploited more easily than normal foreign exchange markets for money laundering purposes. The parallel market should spring back relatively quickly, albeit perhaps with a slightly different structure of brokers and accounts, but not without having imposed greater transaction costs on even legitimate market participants. End comment.

CAULFIELD